B5150-2

The Manufacturers Hanover
Financial Digest
Economic Commentary, Selected Financial Data, and Business Indicators

MONDAY, APRIL 28, 1986 VOLUME XXIII, NUMBER 10

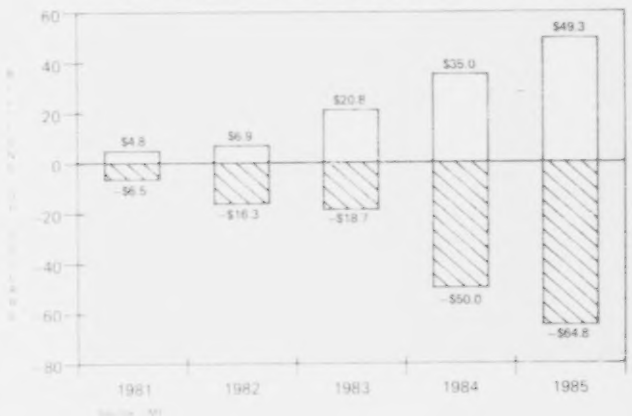
Japan's Trade Surplus Still Expands . . .

One of the major topics of discussion at the upcoming Tokyo summit meeting will be Japan's burgeoning trade surplus. For despite the export-dampening effects of the steep appreciation of the yen since the G-5 meeting on September 22, 1985, Japan's trade account is poised for its fourth consecutive record surplus this year. The structural nature of Japan's import composition helps to explain this phenomenon, as Japan is the world's largest importer of raw materials. Therefore, in light of the present depressed nature of world commodity prices, the terms of trade have turned decisively in its favor. In this regard, the steep fall in oil prices will be a significant factor boosting the surplus from $56 billion in 1985 to at least $70 billion this year. According to Prime Minister Nakasone, every $10 decline in oil prices will boost Japan's surplus by $12 billion annually.

Japan's export performance, on the other hand, has already weakened, reflecting the effects of the steep rise of the yen in recent months. All sectors except motor vehicles are performing poorly, particularly ships, steel and chemicals. However, when measured in dollar terms, as the government does in releasing the trade statistics, this export weakness has been masked by the appreciation of the yen. In fact, data for the first two months of 1986 reveal a respectable 17.1 percent year over-year gain in exports when translated from the stronger yen back into now cheaper dollars. As a result, the trade surplus during the January-February period advanced by 50 percent to $7.2 billion. Such a trend will continue throughout 1986 as the volume decline in exports fails to match the yen's appreciation, thus boosting their dollar value.

Not surprisingly, the yen's ascent has generated significant concerns among the Japanese business community, given the threat to its international competitive position and the possibility of sharply diminished profits. To retain market share, especially in the important U.S. market which accounted for nearly 40 percent of total export sales during the first two months of 1986, Japanese companies are reducing their profit margins. Automobile manufacturers for example have announced price increases of four to ten percent in recent months, well below that suggested by the rise of the yen. The decline in oil prices, the fall in domestic interest rates and low inflation (just 1.8 percent during the year ending February) aid Japanese companies in their attempt to hold the line on export prices. Nonetheless, profit margins will shrink, particularly as falling export volumes coincide with weak domestic demand.

JAPAN: CURRENT ACCOUNT SURPLUS (CLEAR BAR) VS. NET LONG-TERM CAPITAL DEFICIT (SHADED BAR)



. . . Despite Sluggish Exports . . .

What is more, heightened sales competition from such newly industrialized countries (NICs) of Asia as Korea and Taiwan also clouds Japan's export outlook. While the yen has strengthened substantially, the currencies of its industrialized Asian neighbors have been relatively steady against the dollar. Both the Korean won and Taiwan dollar have risen only slightly against the U.S. currency since the turn of the year, and the Singapore dollar has actually eased modestly. Korea's international competitive position has been particularly enhanced by the yen's rise, as evidenced by the 19.5 percent increase in exports recorded during the first two months of the year. Steel, television sets and VCRs are among the many products which will greatly benefit from the yen's appreciation as Korea chips away at Japan's market share in these areas.

In addition to the rise of the yen and enhanced competitiveness from other Asian NICs, Japan's

Copyright 1986
Manufacturers Hanover
270 Park Avenue, New York, N.Y. 10017

export performance will also be hindered by China's economic slowdown, initiated in order to narrow its trade deficit, particularly with Japan. Last year, China was Japan's second largest export market, absorbing a shade more than seven percent of Japan's total exports. However, with growth slowing in the People's Republic, Japanese exports dropped by eight percent during the first two months of 1986 compared with same-period, year-earlier levels, while the proportion of overall exports accounted for by China fell to five percent.

. . . Producing Additional Capital Outflows

Given the enormity of Japan's trade and current account surpluses, it is no surprise that the country has become the world's largest capital exporter—replacing OPEC, whose ability to export capital has diminished in tandem with the slump in oil prices. In 1985, for example, Japan's basic balance (which includes the current account plus net long-term capital flows) was deep in the red, by a hefty $15.5 billion, due to net long-term capital outflows of nearly $65 billion—which entirely offset the largest annual current account surplus ever posted by any country (see chart on page 1). What is more, this trend accelerated during the first two months of 1986, with the basic balance deficit ballooning by 330.7 percent to $9.4 billion from similar period, year-ago levels, as net long-term capital outflows surged from $5.5 billion to $15.2 billion.

Selected Federal Reserve Data

	Week Ending 4/23/86		
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	187,163	+ 1,489	+14,891
Loans to Depository Inst.	392	+ 263	− 126
Float	357	+ 194	− 251
Total Reserve Bank Credit	204,320	+ 1,962	+18,143
Treasury Deposits with Federal Reserve Banks	7,221	− 1,172	− 3,795
Currency in Circulation	194,368	− 497	+13,552
Gov'ts held for Foreign Acct. by F.R. Banks (End of Week)	141,280	+ 1,467	+24,584
	4/23/86		
Member Bank Reserves:			
Total Reserves Held	48,063	+ 1,438	+ 6,169
Excess (Deficiency)	956	+ 326	+ 072
Net Free Reserves	156	+ 434	+ 274
Monetary Aggregates†			
M1 (4/14/86)	641.5	+ 8.9‡	+ 11.8‡
M2 (March '86)	2,598.3	+ 3.8	+ 6.6
M3 (March '86)	3,258.6	+ 7.2	+ 7.0
Domestic Nonfinancial Debt (4th Q'85)	6,867.9	+ 19.2	+ 14.7

†Seasonally adjusted. *Seasonally adjusted annual rate. ‡ Four-week moving average.

New York Money Market

Offering Rates 4/25/86	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	6.16%	6.19%	6.20%
* Federal Agencies	6.54	6.66	6.69
* Municipal Notes–High Grade (46% Taxable Equivalent)	8.70	7.87	8.15
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market–Prime	6.52	6.52	6.50

‡ Finance Company Paper–Prime		‡* Bankers' Acceptances	
5- 14 days	6.62%	May	6.65%
15- 29 days	6.60	Jun.	6.55
30- 59 days	6.50	Jul.	6.55
60- 89 days	6.40	Aug.	6.50
90-179 days	6.20	Sep.	6.50
180-239 days	6.05	Oct.	6.40
240-270 days	6.05		
‡ Industrial Paper–Prime			
30- 89 days	6.50%	†Federal Funds	
90-120 days	6.45	Effective Rate	6.80%

$Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

	Latest Period	Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	1st Q'86	$ 4,111	$ 4,059	$ 3,918
Gross National Product (1982 Dollars)*	1st Q'86	$ 3,619	$ 3,591	$ 3,548
Percent Change, Annual Rate	1st Q'86	3.2	0.7	3.7
Change in Consumer Prices*	Mar. '86	4.2%	− 4.8%	6.0%
Change in Producer Prices*	Mar. '86	11.2%	− 19.2%	0.0%
Civilian Employment (Thousands of Persons)†	Mar. '86	108,268	108,561	106,951
Unemployment as % of Civilian Labor Force†	Mar. '86	7.2%	7.3%	7.3%
Personal Income*	Mar. '86	$ 3,487	$ 3,401r	$ 3,258
Leading Indicators Composite Index (1967=100)†	Feb. '86	176.4	174.1	167.4
Industrial Production Index (1977=100)†	Mar. '86	128.1	125.7	124.0
Net Change in Consumer Installment Credit†	Feb. '86	$ 4.41	$ 7.66r	$ 9.04
U.S. Merchandise Trade Balance†	Feb. '86	$ 7.74	− $ 14.42	− $ 11.45
Plant and Equipment Expenditures*	2nd Q'86	$391.66(a)	$390.66(a)r	$387.83r
Private Housing Starts (Thousands of Units)*	Mar. '86	1,841	1,997r	1,849
New Construction Expenditures*	Feb. '86	$ 360.6	$ 356.1	$ 334.3
Total Business Inventories†	Feb. '86	$ 585.3	$ 585.0r	$ 578.5r
Total Business Sales†	Feb. '86	$ 427.2	$ 432.0r	$ 418.2r

*Seasonally adjusted annual rate. †Seasonally adjusted. (a) Latest reported figure. r Revised. a Anticipated.

The bulk of Japan's overseas investments are in long-term government bonds, mainly in the United States. But Canada, Australia and New Zealand as well are also key recipients of such flows, and interest is increasing in West Germany. During the first two months of 1986 alone, Japan's net purchases of foreign bonds totaled nearly $12 billion, suggesting that the full-year figure could be about $70 billion. In contrast to bonds, net purchases of stock have so far been rather meager, totaling just $510 million during this period.

Despite the yen's strength, Japan's appetite for dollar-denominated assets has not abated and, in fact, is expected to swell as there is simply no other market in the world which can accommodate its growing current account surplus. No financial center can match the depth and resiliency of the U.S. financial markets, whose attractiveness has been enhanced by a pattern of interest rate differentials favoring dollar asset acquisition. In addition, the sharp appreciation of the yen makes investment in the U.S. less expensive. Finally, the Japanese government's recent decision to lift the limit of assets held by life insurance companies in foreign securities from ten to 25 percent also will encourage capital outflows. Indeed, Japan will see its position as the world's principal capital exporter grow in coming years—the often overlooked flip side of its hefty trade surpluses. H

Short Term Paper Outstanding

	Latest Week	Change Since Week Ago	Change Since Year Ago
Time Deposits of $100,000 or more Weekly Reporting Banks			
Nationwide (4/9/86)	159,200	– 228	+ 2,921
New York City (4/16/86)	34,834	+ 177	+ 1,853
Commercial Paper (4/16/86)	298,703	+ 1,485	+46,706

Bank Loans

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (4/9/86)	258,575	– 2,619	+ 2,859
New York City (4/16/86)	59,041	+ 1,022	– 2,885

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (4/9/86)	726,812	– 5,654	+ 60,188
New York City (4/16/86)	160,463	+ 2,786	+ 13,919

Financial Markets

	Friday 4/25/86	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	6.29%	+ 29	– 1.75
180-Day Bills†	6.46	+ 41	– 2.01
Longest Bills†	6.61	+ 47	– 2.29
Recent Issues:			
6⅝s 4/30/88 (When Issued)	6.90	NA	
7¼s 3/31/90	7.27	+ 67	
8⅞s 2/15/96	7.56	+ 51	
9¼s 2/15/16	7.60	+ 43	
Municipals:			
Bond Buyer–20 Bond Index* (4/24/86)	7.22%	+ 06	– 2.17
Blue List Total ($ Million)	$1,366	+ $188	+ $ 426
30-Day Visible Supply ($ Million)	$5,690	+ $287	+ $1,360
Total	$7,658	+ $475	+ $1,786
Corporates:			
Moody's Aa Composite (4/24/86)	9.33%	+ 22	– 3.27
30-Day Visible Supply ($ Million)	$2,446	+ $188	+ $2,338
Stocks:			
Dow-Jones Averages:			
Industrials	1,805.57	– 4.83	– 560.39
Transportation	810.37	– 1.59	+ 224.72
Utilities	205.70	– 5.08	+ 31.95
65 Stocks	713.83	– 4.30	+ 199.86
N.Y.S.E. Composite Index	168.51	– .36	+ 33.99
N.Y.S.E. Avg. Daily Vol. for Week (000's)	147,374	+ 3,524	+ 50,460

* 46% Taxable equivalent 13.37%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 4/25/86	Week Ago
Overnight	6.69%	6.56%
1 month	6.88	6.56
3 month	6.81	6.50
6 month	6.81	6.50
1 year	6.88	6.50
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	7.74%	7.40%
Long Term (7 to 15 yrs.)	8.33	8.00

FOREIGN EXCHANGE SPOT RATES New York Opening (4/25/86)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.02255	44.35
Canada	.7219	1.3852
Denmark	.1244	8.0375
France	.1448	6.9050
Germany	.4625	2.1620
Italy	.0006734	1485.00
Japan	.005976	167.35
Mexico	.001969	508.00
Netherlands	.4076	2.4535
Switzerland	.5536	1.8065
U.K.	1.5505	6450

Better than ever in our 20th year.

The Manufacturers Hanover Westchester Classic will be held at the Westchester Country Club in Harrison, NY, June 2-8, 1986.

- Roger Maltbie, defending champion, and other top pros from the PGA Tour, will compete for $600,000 in prize money, and the winner's purse of $108,000.
- Proceeds help support the following area hospitals: United, Lawrence Auxiliary, New Rochelle, Northern Westchester, Phelps Memorial, St. Agnes, St. John's, St. Joseph's, St. Vincent's, Blythedale Children's, Greenwich, Mount Vernon, White Plains, Yonkers General.
- Tickets on sale at all these hospitals through June 1st, thereafter at the gate. To charge with MasterCard or VISA, call 212-808-8519, Monday to Friday, 9am-5pm.
- For more information call (914) 967-5356.

MANUFACTURERS HANOVER
The Financial Source® Worldwide

© Mfrs. Hanover Corporation 1986. All Rights Reserved.

The Manufacturers Hanover
Financial Digest

Bank Window, Church St. Station
New York, New York 10015

First Class Mail
U.S. Postage
PAID
New York, N.Y.
Permit No. 585

002000000006990 C 939 CONGR0001
SKI ACQUISITIONS
CONGRESSIONAL INFORMATION
SERVICE, INC.
4520 EAST-WEST HWY., SUITE 800
WASHINGTON, DC 20014